

CHAPTER 7TYPES OF AUDITSA. PURPOSE

This chapter defines and describes the various types of audits performed by the DoD audit organizations and relates these audits to other portions of this Manual that provide greater detail on planning and performing audits and reporting audit results.

B. APPLICABILITY

The guidance in this chapter applies to the audits performed by all DoD internal audit, internal review, and military exchange audit organizations (hereafter referred to collectively as "DoD internal audit organizations"). Certain terminology, however, may not apply to every audit organization.

C. STANDARDS AND POLICIES

Each DoD internal audit organization shall recognize the broad range of audits which may be performed and use this information in developing a comprehensive audit plan. All audits shall be performed consistent with the "Government Auditing Standards" issued by the Comptroller General of the United States (reference (c) ); DoD Internal Audit Standard Number 300 in Chapter 2 of this Manual, "DoD Internal Auditing Standards;" and Chapter 3 of this Manual, "Audit Concepts ."

D. CLASSIFICATION OF AUDITS

Audits performed by DoD internal audit organizations can be classified according to:

1. Types of audits set forth in the Government Auditing Standards (reference (c) ).
2. How many DoD Components are included.
3. Where the basic requirement for the audit originated.
4. How many locations are covered.
5. What type entity is covered.
6. Where the audit resources are obtained.
7. How the audited operations are funded.
8. Whether the audit was specifically programmed for a followup review.

E. TYPES ESTABLISHED IN THE GOVERNMENT AUDITING STANDARDS

Chapter 2 of the Government Auditing Standards (reference (c)) classifies audits as being financial audits or performance audits and defines each **type** as follows:

**1. Financial Audits.** These **audits** include financial statement and financial related audits.

a. Financial. Statement Audits. Financial statement **audits** determine whether the financial statements of an audited entity **present** fairly the **financial position**, results of operations, and cash flow or changes in financial position in accordance with generally accepted accounting principles, and whether the entity has complied with laws and regulations for those transactions and events that may have a material effect on the financial statements.

b. Financial Related Audits. Financial related audits **include** determining whether financial reports and related items such as elements, accounts, or funds are fairly presented; whether financial information is **presented** in accordance with established or stated criteria; and whether the entity has adhered to specific financial **compliance** requirements. Financial related **audits** may include audits of: segments of financial statements; financial information; **reports** and schedules on financial matters; contracts; grants; internal control systems and structure over accounting, financial **reporting**, and transaction processing; **computer-based** systems; financial systems; and fraudulent activities related to any of those areas.

**2. Performance Audits.** Performance audits include **economy** and efficiency and program audits.

a. Economy and Efficiency Audits. **Economy** and efficiency audits include determining whether the entity is **acquiring**, protecting, and using its resources (**such as** personnel, property, and space) **economically** and efficiently; the causes of inefficiencies or **uneconomical** practices; and whether the entity has **complied** with laws and regulations concerning matters of **economy** and efficiency. **Economy** and efficiency audits may, for example, consider whether the entity is following sound **procurement** practices; is acquiring the appropriate **type**, quality, and **amount** of resources when needed at the lowest **cost**; is properly protecting and maintaining its resources; is avoiding duplication of effort by employees and work that serves little or no **purpose**; is avoiding idleness and overstaffing; is using efficient operating procedures; is using the minimum amount of resources in producing or delivering the appropriate quantity and quality of goods or services in a **timely** manner; is complying with requirements of laws and regulations that could significantly affect the acquisition, protection, and use of the entity's resources; and has an adequate system of measuring and reporting performance on **economy** and efficiency.

b. Program Audits. Program audits include determining the extent to which the desired results or benefits established by the legislature or other authorizing body are being achieved; the effectiveness of organizations, programs, activities, or functions; and whether the entity has **complied** with laws and regulations applicable to the program. Program audits may, for example, assess whether the objectives of a proposed, new, or ongoing program are proper ,

suitable, or relevant; determine the extent to which a program achieves a desired level of program results; assess the effectiveness of the program and/or of individual program components; identify factors inhibiting satisfactory performance; determine whether management has considered alternatives for carrying out the program that might yield desired results more effectively or at a lower cost; determine whether the program **complements**, duplicates, overlaps, or conflicts with other related programs; identify ways of making programs **work** better; assess **compliance** with laws and **regulations** applicable to the program; and assess the adequacy of management's system for measuring and reporting effectiveness.

F. **NUMBER OF DOD COMPONENTS INCLUDED IN THE AUDIT**

Audits are classified as to whether coverage is restricted to one **DoD Component** or whether several **DoD Components** are involved.

1. **Single Service Audit.** This type of audit is confined to a single Military Service (for purposes of this chapter defined as the Departments of Defense, Army, Navy, and Air Force) .

2. **Interservice Audit.** An interservice **audit** is an audit of **DoD policies**, procedures, and operations that can best be **accomplished** by a single audit **team**. These audits are generally not limited to the evaluation of a Military Service's **compliance** with an established **DoD** policy, but evaluate whether such policy has been properly developed and is appropriate to current circumstances. **Inter-**service audits may also **compare** the implementation of **DoD** policy in the various Military Services to determine if one does it better than another. The audit objectives shall **be** directed **toward** a DCD-wide evaluation and not be limited to an audit of a single Military Service. Interservice audits also address areas that cut across Military Service lines that can best be evaluated by a single **audit** team.

3. **DoD-Wide Audit.** DoD-wide **audits** are defined as audits of major **DoD** programs, systems, and functions performed jointly by the **DoD** central internal **audit** organizations. The principal difference between an interservice **audit** and a **DoD-wide** audit is that the latter is conducted by multiple teams under the overall guidance of a designated audit agency. A DOD-wide audit would normally have as its objective the evaluation of whether a stated **DoD** policy is being effectively and efficiently followed. The DoD-wide audits are characterized by a limited set of audit objectives. Coordination and timing are the critical factors. The essential ingredients of a **DoD-wide** audit are preparation of a general set of audit objectives equally **applicable** to all Military Services, scheduling the audit for execution by the cognizant **DoD** central internal audit organizations around the same time, and summarization of results for **DoD** and Military Services' management. Policy guidance, procedures, and **responsibility** for planning and performing DOD-wide audits are set forth in Chapter 19 of this Manual , "DOD-Wide **Audit** Process. "

G. **BASIC REQUIREMENT FOR THE AUDIT**

An audit can be classified by identifying where the basic requirement for the audit originated.

1. Mandatory. Statutory and regulatory requirements prescribe that certain audits be performed. These requirements may emanate from such sources as Congress, Office of Management and Budget (OMB), U.S. General Accounting Office (GAO), Secretary of Defense, or the Secretaries of the Military Departments.

2. Identified by the Audit Organization (Self-Initiated). Most proposals for audit are developed by the audit organizations giving consideration to factors such as adequacy of internal **controls**; susceptibility to fraud, waste, or abuse; newness, changed conditions, or sensitivity; dollar magnitude; audits by others; results of other evaluations; availability of audit resources; and operational results. In developing proposals for this type of **audit**, suggestions should be solicited from all levels of **management** and personnel inside and outside the organization. Detailed policies and procedures for determining what audits are to be performed are contained in Chapter 5 of this Manual, "Planning."

3. Management or Congressional Requests. Audit work generated from requests by management officials at all levels shall be **accommodated** to the greatest extent possible after audit priorities and availability of **audit** resources are fully **considered**. Criteria to be met are set forth in Chapter 8 of this Manual, "Performing Audits." Audits may also be generated to **respond** to congressional requests for information.

4. Hotline Referrals. **Audits** may be initiated specifically to examine allegations made through the GAO, DOD, or Military Department hotlines.

#### H. NUMBER OF LOCATIONS

Audits can be classified as to how many locations are included.

1. Multilocation Audit. An audit of an organization, program, system, or other entity performed at two or more locations under the centralized direction of an audit control point.

2. Single Location Audit. An **audit** of an organization, program, system, or other entity performed at a single location.

#### I. TYPE OF ENTITY

The entity selected for **audit** may be an organization, program, system, or other type of entity.

1. Organizations. This type of audit covers an entire organization.

2. Programs. This **type** of audit covers a group of related **policies**, procedures, systems, and areas designed to **accomplish** predetermined and specific organizational goals. A program may be synonymous with one of the functions listed in Chapter 16 of this Manual, "**Reporting Audit Time**." Examples are construction programs, **depot** maintenance programs, civilian pay programs, etc.

3. systems. This **type** of audit covers a series of manual or automated **steps** or processes by which transactions are recognized, authorized, classified, recorded, summarized, and reported. There are various types of systems, such as accounting systems, disbursing systems, supply systems, etc.

4. Other Entities. In many cases, it is not appropriate to audit a **complete** organization , program, or system. In these cases, the audit generally covers a portion of an organization, program, or system.

Additional information relative to planning for these types of audits is contained in Chapter 5 of this Manual, "Planning. "

#### J. SOURCE OF AUDIT RESOURCES

An audit may be performed using **audit** resources that are either **permanently** or temporarily assigned to an audit site during the audit.

1. Residency Audit. This audit is staffed with **audit** personnel permanently assigned to the audit site.

2. Mobile Audit. This **audit** is **staffed** with audit personnel permanently assigned to another location but temporarily assigned to the audit site (or audit sites for **multilocation** audits) during the audit.

#### K. TYPE OF FUNDS

This classification differentiates between audits of entities financed with appropriated funds and those financed from other sources.

1. Appropriated Funds. Funds authorized by the Congress for specified purposes against which obligations may be incurred and subsequent expenditures made. These **include** operating funds, investment funds, and research funds.

2. Nonappropriated Funds. Cash and other assets received by **nonappropriated** fund instrumentalities from sources other than congressional appropriations, primarily from the sale of **goods** and services to **DoD** military, military family members, and authorized civilians.

3. Revolving Funds. Stock funds, industrial funds, etc., originally authorized by the **Congress** for specific purposes with expenditures replenished from appropriated funds, nonappropriated funds, other revolving funds, foreign receivables, etc.

#### L. LEVEL OF EFFORT DEDICATED TO FOLLOWUP

An **audit** can be classified based on whether required **followup** on **recommendations** in prior reports is performed as a routine part of an audit or whether an audit's sole objective is to follow up on prior **recommendations**. In both cases, auditors shall coordinate with Component **followup** officials to determine the status of agreed-upon **recommendations** on prior audit reports as documented in **followup** files.

1. Regular Audit. Insofar as it is **consistent** with the objectives of the present audit, **followup** is to be performed to determine if appropriate corrective action was taken on **recommendations** in prior reports issued by **DoD** audit or inspection organizations and the GAO, and whether any of the conditions cited in the prior reports still exist. This requirement is stated in Chapter 8 of this Manual, "Performing Audits. "

2. Followup Audit. This type of audit is solely focused on determining whether appropriate corrective action has **been** taken on **recommendations** in a specific prior audit report and whether the previously reported condition has been corrected.